

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PORT OF MONROE PORT DISTRICT	County MONROE
Fiscal Year End 06/30/07	Opinion Date 08/08/07	Date Audit Report Submitted to State NOVEMBER 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

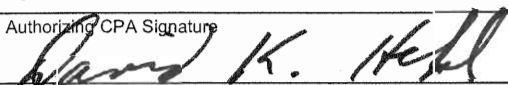
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds. (SINGLE ENTERPRISE FUND)
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute. (WITH THE CITY OF MONROE)
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, PLLC		Telephone Number 734-241-7200	
Street Address ONE SOUTH MONROE STREET		City MONROE	State MI
Zip 48161			
Authorizing CPA Signature 		Printed Name DAVID K. HEHL, CPA	License Number 1101007068

**PORT OF MONROE**  
Monroe, Michigan

**FINANCIAL REPORT**

For the Year Ending June 30, 2007

# PORT OF MONROE

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## Independent Auditor's Report

Monroe Port Commission  
Port of Monroe  
2929 East Front Street  
Monroe, Michigan 48161

We have audited the accompanying financial statements of the Port of Monroe, Monroe, Michigan, a component unit of the City of Monroe, Michigan as of and for the year then ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the Port of Monroe management. Our responsibility is to report on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our report.

The financial statements present only the Port of Monroe and do not purport to, and do not, present fairly the financial position of City of Monroe, Michigan, as of June 30, 2007, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, the Port of Monroe owns property which is undergoing environmental remediation. The Port of Monroe is one of several potentially responsible parties for these costs, the total amount of which has not been determined. As of June 30, 2007 a provision was made in the accompanying financial statements for the minimum amount of the range of estimated liability.

Because of the significance of the uncertainty described in the preceding paragraph, we are unable to express, and we do not express, an opinion on the financial statements referred to in the first paragraph for the year ended June 30, 2007.

Monroe Port Commission  
Port of Monroe

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Management's Discussion and Analysis is not a required part of the financial statements, but is required supplementary information. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Port of Monroe, taken as a whole. The budgetary comparison schedule is presented for additional analysis and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements but, as noted above, because of the significance of the uncertainty described above, we are unable to express, and we do not express an opinion on the schedule.

*Cooley H&H Wohlgemuth & Carlton, PLLC*

August 8, 2007

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Monroe Port Commission, we offer the readers of the Monroe Port Commission's financial statements this narrative overview and analysis of the financial activities of the Monroe Port Commission for the fiscal year ended June 30, 2007. Please read it in conjunction with the transmittal letter, also called the Independent Auditor's Report, found in the front of this report, and the Port's financial statements, which follow this section.

**Financial Highlights**

The Port of Monroe (the "Port") is a separate legal entity created by a vote of the people of the City of Monroe (the "City") in 1932 in accordance with the Port District Act. For accounting purposes, it is considered a component unit of the City.

As shown on the Statement of Net Assets below, the Port's assets exceed its liabilities by \$4,318,892. The net assets have increased by \$1,022,225 for fiscal year 2006-2007 when comparing the beginning of the fiscal year to the end of the fiscal year. The primary reason for the increase in net assets was a non-cash contribution recorded from the City of Monroe where the associated costs were capitalized by the Port of Monroe in the amount of \$988,023. The costs were related to the cleanup and demolition of the Battlefield site which is being funded in part by a \$1 Million grant from MDEQ. Net assets may, over time, enable governmental agencies to determine their overall fiscal position.

The Port's position in cash and cash equivalents decreased by \$131,946 during fiscal year ended June 30, 2007. This was primarily the result of a reduction in property tax collections of \$124,863.

The Port millage rate and corresponding property tax revenue was approximately:

<u>Fiscal Year</u>	<u>Millage Rate</u>	<u>Property Tax Revenue</u>
2007	.425 Mill	\$399,000
2006	.50	465,000
2005	.25	230,000

The millage rate of fiscal 2008 is .425 mill.

The general purposes for the levy are to provide for a director of economic development, to purchase abandoned or underutilized parcels of land and to demolish blighted or functionally obsolete buildings for reuse thereby creating jobs, enhancing the tax base for the City of Monroe and improving the quality of life. The goals of the director of economic development include working to retain businesses already in the City and to recruit new businesses by facilitating their interface with state and local government in the regulatory arena and in obtaining economic incentives based on new investment and job creation. Every local community in Michigan and in the mid-west competes intensely for new jobs and investment dollars. As an advocate of business, the economic development director will improve the City's competitiveness in retaining and recruiting businesses, jobs, and investment.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**Financial Highlights (Concluded)**

In June of 2005 the Port acquired the vacant building at 14 East First Street in the City of Monroe. Representatives from the City, Port, the library advisory committee, and other interested citizens are meeting to consider the financial and physical feasibility of remodeling the building for library purposes. If determined that using the building for library purposes is not feasible, the building will be made available for other public or private uses.

In June of 2006 the Port assumed ownership of approximately 35 acres of land located at the intersection of East Elm Avenue and North Dixie Highway. The Battle of the River Raisin occurred on this site in 1813 and many American soldiers were taken prisoner or killed during the battle. The land north of Elm was donated by Homrich, Inc. and the land between Elm and the River Raisin was donated by the Monroe County Historical Society. The Port accepted ownership with the understanding that the property would be held for a historical park and the purpose of preservation and historical interpretation of the events surrounding this important battle of the War of 1812. Through a grant from the State of Michigan the former power house and other nearby structures have been demolished and the affected area has been backfilled and compacted. The state, the city and the local brownfield redevelopment authority (BRA) have provided an additional \$1 million to continue the demolition work. The city and the BRA have applied for a revolving loan fund from the US EPA for \$1.25 million which should complete the demolition and restore the site to its natural grade with appropriate vegetation. The additional work is expected to be complete by summer of 2008.

**Overview of Financial Statements**

This discussion and analysis is intended to provide a basis of understanding of the Port's basic financial statements. These statements present the following components: presentation of net assets; presentation of revenues, expenses, and cash flows; notes to financial statements; and supplemental information. While the financial statements show other non-operating revenues including property tax, the operations of the Port as a component unit of the City are accounted for as a single enterprise fund that accounts for the operations that are financed through user charges to the general public.

**Statement of Net Assets.** The statement of net assets presents information on all of the Port's assets and liabilities, with differences between the two reported as net assets. The capital assets of the Port are listed in the Statement of Net Assets. Over time, increases and decreases in the net assets reflect activities by the Port that may have positive or negative financial impact on the overall fiscal position of the Port.

**Statements of Revenues, Expenses and Cash Flows.** These statements present information about the Port's operating and non-operating revenues and expenses, a comparison of cash and cash equivalents between the beginning and the end of the fiscal year, and a reconciliation of operating income to net cash from operating activities.

**Notes to the financial statements.** The notes provide additional information for a full understanding of the data provided in the Port's financial statements.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**Supplemental Information.** The supplemental information in the Port's financial statements consists of the budgetary schedule, which compares actual amounts with the original and amended budgets as approved by the Port and the City.

**Condensed Statement of Net Assets.** Below you will find the financial statements presented in a condensed format. The details along with certain reconciliations are presented in the financial statements that follow Management's Discussion and Analysis.

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Current assets	\$486,162	\$578,682
Restricted cash - held in trust	20,392	20,140
Property and Equipment	<u>4,826,280</u>	<u>3,736,320</u>
Total assets	<u><u>\$5,332,834</u></u>	<u><u>\$4,335,142</u></u>
<b>Liabilities:</b>		
Current liabilities	\$508,880	\$460,855
Contract payable	165,062	165,062
Due to City of Monroe (Extension of Utilities)	40,000	60,000
Deferred income - rent	0	52,558
Environmental	<u>300,000</u>	<u>300,000</u>
Total liabilities	<u><u>\$1,013,942</u></u>	<u><u>\$1,038,475</u></u>
<b>Net assets:</b>		
Invested in capital assets - net of related debt	\$4,599,648	\$3,491,258
Restricted - environmental trust	20,392	20,140
Unrestricted	<u>(301,148)</u>	<u>(214,731)</u>
Total net assets	<u><u>\$4,318,892</u></u>	<u><u>\$3,296,667</u></u>

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets and Cash and Cash Equivalents**

	2007	2006
Operating revenues	\$176,403	\$123,810
Non-operating revenues	413,755	486,191
Contribution from the City (MDEQ Grant-Battlefield)	988,023	0
Total revenues	<u>1,578,181</u>	<u>610,001</u>
Operating expenses	551,073	484,962
Non-operating expenses	4,883	8,717
Total expenses	<u>555,956</u>	<u>493,679</u>
Change in net assets (revenues less expenses)	<u>\$1,022,225</u>	<u>\$116,322</u>
Total net assets, beginning of year	\$3,296,667	\$3,180,345
Increase (Decrease) in net assets	<u>1,022,225</u>	<u>116,322</u>
Total net assets, end of year	<u>\$4,318,892</u>	<u>\$3,296,667</u>
Cash in	\$510,621	\$589,297
Cash out	<u>(642,567)</u>	<u>(522,297)</u>
Net Increase (Decrease) in cash and cash equivalents	<u>(\$131,946)</u>	<u>\$67,000</u>
Cash and cash equivalents, beginning of year	\$188,200	\$121,200
Net Increase (Decrease) in cash and cash equivalents	<u>(131,946)</u>	<u>67,000</u>
Cash and cash equivalents, end of year	<u>\$56,254</u>	<u>\$188,200</u>

**Financial Analysis**

The decrease in the Port's cash and cash equivalents by \$131,946 during fiscal year 2007 resulted primarily from the reduction in property tax collections. The capital assets, net of depreciation and related debt, increased by \$1,108,390 because the Port's acquisitions and debt reduction, were greater than the current year depreciation.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**Financial Analysis (Concluded)**

There were also the following income and expense items that were notable fluctuations from the prior year:

Salaries: Decrease of \$32,242 relating to the reduction of one employee during the year.

Promotion: Increase of \$24,191 relating to the addition of a contractor for Economic Development.

**Budgetary Highlights**

The Port budget is set out in the supplemental information comparing the initial and amended budgets and the actual amounts spent in the various categories. Some of the larger differences of actual compared to budget are as follows:

Repairs and maintenance: Under budget \$16,002 because the proposed replacement of certain windows was deferred to a future time and the amount budgeted for snow removal was more than required due to less severe weather.

Land rental revenue: Over budget \$53,408 because of a determination regarding a prepaid land lease held in deferred revenue, while land not in use. It has been determined that the Port has no further obligations under the terms of the lease.

Promotion: Under budget \$16,250 because the amount actually required to retain a consultant to promote and facilitate economic development was less than anticipated due to adjustments made to the commencement date and scope of the program with the retained consultant.

Salaries: Under budget \$13,010 due to a reduction of one employee during the middle of the year.

Consulting engineers: Under budget \$37,728 because costs were capitalized that were originally budgeted expenses.

Legal: Over budget \$12,404 because legal fees associated with a review and assessment of the many railroad easements and agreements between the Port and the railroads that serve the Port lands required additional effort due to the number and age of such agreements and various state and federal amendments to railroad regulatory laws.

Total Nondepreciable Capital Assets: Increase of \$1,418,492 due in large part to the cost of the demolition related work at the Battlefield funded by a \$1 Million grant from MDEQ and transfer of the vacant building at 14 East First Street from a depreciable capital asset to a nondepreciable capital asset because the building has not been and is not likely to be placed in use in the near future.

**PORT OF MONROE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007**

**Capital Asset and Debt Administration**

	Beginning Balance	Additions	Deletions	Ending Balance
Total Nondepreciable Capital Assets	\$2,350,467	\$1,418,492	\$0	\$3,768,959
Total Depreciable Capital Assets	2,996,428	1,297	235,739	2,761,986
Total Capital Assets	5,346,895	<u>\$1,419,789</u>	<u>\$235,739</u>	6,530,945
Less Total Accumulated Depreciation	1,610,575	<u>\$94,090</u>	<u>\$0</u>	1,704,665
Total Capital Assets, Net	<u>\$3,736,320</u>			<u>\$4,826,280</u>

Capital asset additions were primarily construction in process regarding the battlefield project for a total of \$1,182,753.

The Port has agreed to reimburse the City for cost of certain infrastructure improvements as a part of a state grant. The balance of \$60,000 as of June 30, 2007, will be paid in annual installments of \$20,000 until paid in full. See Note 11 to the financial statements for more detailed information.

**Economic Factors**

Over the past year the Port has experienced a significant increase in the number of inquiries about industrial and commercial development and intermodal transportation opportunities. Development projects are currently under consideration that would involve rail and lake shipping opportunities and construction or rehabilitation of manufacturing, multimodal and corporate facilities. However, the economy in Southeast Michigan is significantly depressed with several major closures and downsizing of existing operations having been announced over the past 12 months. Consistent with that reality, presently no new development projects are under construction at the Port. The representatives from the Port and the City have and will continue to intensify their efforts to retain existing employers and facilitate and provide authorized incentives to attract new employers and investors to the City including the Port.

**Requests for Information**

This financial report is designed to provide a general overview of the Port's finances for all those with an interest in this component unit of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Monroe Port Commission, Attention: Chairman, 2929 E. Front Street, P.O. Box 585, Monroe, MI 48161.

# PORT OF MONROE

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## BALANCE SHEET

June 30, 2007

### Assets

#### Current Assets

Cash and cash equivalents	\$56,254
Accounts receivable	6,439
Property taxes receivable, less allowances of \$1,007	36,103
Due from Monroe County Historical Society	600
Due from City of Monroe - property taxes	360,023
Prepaid expenses	26,743

Total Current Assets	486,162
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#### Restricted Assets

Restricted cash - held in trust	20,392
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#### Capital Assets

Property and equipment - net	4,826,280
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Total Assets	<u>\$5,332,834</u>
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### Liabilities and Net Assets

#### Current Liabilities

Accounts payable	\$66,889
Due to City of Monroe	20,000
Other accrued expenses	1,254
Deferred income - property taxes	412,130
Current portion of deferred income - rent	8,607

Total Current Liabilities	508,880
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#### Long-Term Liabilities

Contract payable	165,062
Due to City of Monroe	40,000
Deferred income - rent	0
Environmental	300,000

Total Long-term Liabilities	505,062
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Total Liabilities	<u>1,013,942</u>
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#### Net Assets

Invested in capital assets, net of related debt of \$226,632	4,599,648
Restricted - environmental trust	20,392
Unrestricted	(301,148)

Total Net Assets	4,318,892
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Total Liabilities and Net Assets	<u>\$5,332,834</u>
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2007

	<u>Amount</u>	<u>Percentage of Operating Revenue</u>
<b>Operating Revenues</b>		
Building rental	\$42,600	24.1
Land rental	79,908	45.3
Wharfage and dockage	38,705	21.9
MCIDC - office rental	10,000	5.7
Administrative services	5,190	2.9
Total Operating Revenues	176,403	100.0
<b>Operating Expenses</b>		
Consulting engineers	62,272	35.3
Salaries	84,525	47.9
Environmental expense	6,000	3.4
Environmental travel and meetings	2,065	1.2
Repairs and maintenance	43,998	24.9
Legal	107,404	60.8
Auditing and accounting	11,280	6.4
Utilities	9,441	5.4
Telephone	1,379	0.8
Office supplies and postage	3,171	1.8
Life and medical benefits	520	0.3
General insurance	32,983	18.7
Payroll tax	6,466	3.7
Office cleaning	3,120	1.8
Travel - general	4,856	2.8
Promotion	26,750	15.2
Dues and subscriptions	3,841	2.2
Deferred compensation plan	8,338	4.7
Miscellaneous expense	225	0.0
Commissioner fees	5,820	3.3
Advertising	93	0.1
MCIDC - marketing	10,000	5.7
Depreciation expense	94,090	53.3
Wastewater treatment	22,436	12.7
Total Operating Expenses	551,073	312.4
Operating Income (Loss)	(374,670)	(212.4)
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	11,988	
Property tax - City of Monroe, net of allowance	398,767	
Expired option	3,000	
Interest expense	(4,883)	
Nonoperating Revenues	408,872	
Income Before Other Revenue	34,202	
<b>Other Revenue</b>		
Contribution from City of Monroe	988,023	
Change in Net Assets	1,022,225	
Total Net Assets, Beginning of Year	3,296,667	
Total Net Assets, End of Year	\$4,318,892	

(See accompanying notes to financial statements)

**STATEMENT OF CASH FLOWS**  
For the Fiscal Year Ended June 30, 2007

**Cash Flows From Operating Activities:**

Cash received from customers and tenants	\$114,773
Cash payments to suppliers for goods and services	(316,958)
Cash payments to employees for services	<u>(84,525)</u>

Net Cash Provided By (Used For) Operating Activities	(286,710)
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**Cash Flows From Noncapital Financing Activities:**

Cash received from property tax - City of Monroe	356,110
Cash received from State of Michigan grant	<u>12,500</u>

Net Cash Provided By (Used For) Financing Activities	368,610
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**Cash Flows From Capital and Related Financing Activities:**

Contribution received from City of Monroe	15,250
Purchase of capital assets	(215,812)
Interest paid on long-term debt	(5,021)
Principal payment on long-term debt	<u>(20,000)</u>

Net Cash Provided By (Used For) Financing Activities	(225,583)
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**Cash Flows From Investing Activities:**

Interest received on investments	11,988
Assets added to trust and escrow	<u>(251)</u>

Net Cash Provided By (Used In) Investing Activities	<u>11,737</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	(131,946)
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Cash and Cash Equivalents, Beginning of Year	<u>188,200</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$56,254</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES  
For the Fiscal Year Ended June 30, 2007

Operating Income (Loss)	(\$374,670)
Adjustments to Reconcile Operating Income (Loss) from Operations to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	94,090
Change in Assets and Liabilities:	
Decrease (Increase) in accounts receivable	928
Decrease (Increase) in prepaid expenses	1,604
Increase (Decrease) in accounts payable	42,793
Increase (Decrease) in other accrued expenses	1,103
Increase (Decrease) in deferred income - rent	<u>(52,558)</u>
Total Adjustments	<u>87,960</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>(\$286,710)</u></u>

**Non-Cash Capital Financing Activities:**

Capital assets of \$972,773 were acquired through contributions from the City of Monroe.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 1      Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies of the Port of Monroe.

A. Financial Reporting Entity

The Port of Monroe is a separate legal entity and a component unit of the City of Monroe for financial reporting purposes.

The Port was created by public vote in 1932, under the Michigan Port Districts Act 234 of 1925, as amended. It is administered by the Monroe Port Commission, consisting of five commissioners appointed to three year terms by the Monroe City Council.

B. Basis of Presentation

The operations of the Port are accounted for in a single enterprise type fund as outlined in Governmental Accounting Standards Board (GASB) No. 34. The fund is used to account for operations that are financed through user charges to the general public.

C. Basis of Accounting

The Port of Monroe uses the accrual basis method of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. Depreciation expense is recorded for the period.

The Port distinguishes operating revenue and expense from non-operating items. The principal operating revenues are rent, wharfage, dockage and administrative support. Non-operating revenue includes property taxes and contributions, appropriated by the City of Monroe, grants and interest. The Port applies only those applicable FASB pronouncements issued prior to November 30, 1989.

D. Budget Information

Prior to the beginning of the fiscal year a budget is approved by the Port Commission subject to the approval of the Monroe City Council. Budget amounts are as originally adopted, or as amended if applicable. Unexpended appropriations lapse at year end.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, certificates of deposit and investment pools with original maturities of less than three months. Currently the Port only has cash in checking and money market investment pool accounts which it considers to be cash and cash equivalents.

F. Capital Assets

Items capitalized are valued at cost. The depreciable capital assets are depreciated using the straight-line method over the estimated useful lives of the assets.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 1      Summary of Significant Accounting Policies (Concluded)

## F. Capital Assets (Concluded)

The major portion of these assets are rented to others on operating leases.

<u>Depreciation Categories</u>	<u>Life in Years</u>
Land & earthen dike	0
Road and site improvements	0-25
Railroad siding	10-50
Wharf	7-50
Dredging	20
Leachate collection system	7-20
Rental building	10-33
Office building	3-39
Furniture and equipment	5-10

## G. Property Taxes

Property taxes are assessed and appropriated by the City of Monroe as of December 31. These taxes are billed and become an enforceable lien on the first Tuesday in May of the following year. These taxes are due on June 30 with the final collection date of September 15 before they are added to the county tax rolls.

Property taxes billed each May will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at June 30.

## H. Grants

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Note 2      Deposits and Investments

On December 16, 1998 the Port Commission adopted an investment policy to invest its funds in a manner which will provide the highest in investment return with the maximum security while meeting the daily cash flow needs of the Port and comply with all state statutes governing the investment of public funds. The primary objectives in priority order of the investment activities are safety of principal, diversification, liquidity, and return on investment. The policy lists the types of investments that are authorized so long as they comply with the applicable state statutes.

The Port's deposits and investments were reported in the balance sheet under the following categories:

Cash and cash equivalents	\$56,254
Restricted cash - held in trust	<u>20,392</u>
Total	<u>\$76,646</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 2 Deposits and Investments (Continued)

The breakdown between deposits and investments for the Port are as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$32,174
Petty cash	100
Public short-term pooled investment funds held by a bank depository	<u>44,372</u>
	<u>\$76,646</u>

**Deposits**

The above bank deposits reflected accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$32,851. It is that amount that was covered by federal depository insurance and the remaining deposits were uninsured and uncollateralized.

**Investments**

The Port's investments are categorized below to give an indication of the level of risk assumed by the Port at the year end. Risk Category 1 in the amount of \$32,174 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Port or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterpart's trust department (or agency) in the Port's name. Category 3 includes investments held by:

- a. The counterpart or
- b. The counterpart's trust department (or agent) but not in the Port's name

The Port's investment balance as of June 30, 2007 was not subject to categorization as follows:

Bank investment pools:	
Short-term mutuals	<u>\$44,372</u>

The investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is \$1.00 per share and is the same as the reported value of the pool shares. The shares are accessible on demand and act as a sweep account to checking.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 2     Deposits and Investments (Concluded)**Interest Rate Risks**

The Port's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Port manages its exposure to interest rate risk by generally limiting investment maturities to less than one year.

**Credit Risk**

The Port's credit risk is limited by the state statutes governing the investment of public funds and by the Port Commission investment policy which limits the types of investments. The Port has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk**

The Port investment policy refers to diversification by institution as a method to improve security of principal. The Port places no limit on the amount the Port may deposit or invest in any one issuer. As of June 30, 2007, 100% of the deposits and bank held public short-term pooled investment funds were with Monroe Bank & Trust.

**Custodial Credit Risk**

All of the bank pooled investment accounts and bank deposit accounts, except for the cash held in trust of \$20,392, are in the name of the Port.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 3 Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2007 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$1,665,709	\$ -	\$ -	\$1,665,709
Site improvements	363,697	-	-	363,697
Earthen dikes	321,061	-	-	321,061
Rental buildings	-	235,739	-	235,739
Construction in process	-	<u>1,182,753</u>	-	<u>1,182,753</u>
Total Nondepreciable	2,350,467	1,418,492	-	3,768,959
Depreciable Capital Assets:				
Road & site improvement	877,418	498	-	877,916
Railroad siding	268,785	-	-	268,785
Wharf	248,821	-	-	248,821
Dredging	374,445	-	-	374,445
Leachate collection system	36,056	-	-	36,056
Rental buildings	527,319	-	235,739	291,580
Office building	572,043	-	-	572,043
Furniture and equipment	<u>91,541</u>	<u>799</u>	-	<u>92,340</u>
Total Depreciable				
Capital Assets	<u>2,996,428</u>	<u>1,297</u>	<u>235,739</u>	<u>2,761,986</u>
Total Capital Assets	5,346,895	1,419,789	235,739	6,530,945
Less Accumulated Depreciation:				
Road and site improvement	307,992	35,218	-	343,210
Railroad siding	143,158	5,705	-	148,863
Wharf	208,257	2,336	-	210,593
Dredging	319,851	18,722	-	338,573
Leachate collection system	18,994	1,761	-	20,755
Rental buildings	257,410	8,934	-	266,344
Office building	283,149	16,998	-	300,147
Furniture and equipment	<u>71,764</u>	<u>4,416</u>	-	<u>76,180</u>
Total Accumulated	<u>1,610,575</u>	<u>\$ 94,090</u>	<u>\$ -</u>	<u>1,704,665</u>
Total Capital Assets, Net	<u>\$3,736,320</u>			<u>\$4,826,280</u>

The nondepreciable rental building is the First Street building, adjacent to the library, which will start being depreciated when it is placed in use.

In June of 2006 the Port assumed ownership of approximately 35 acres of land that is a part of the former River Raisin Paper Company properties located at the intersection of East Elm Avenue and North Dixie Highway in Monroe, Michigan. The Battle of the River Raisin occurred on this site in 1813 and many American soldiers were taken prisoner or killed during the battle. The land north of Elm was donated by Homrich, Inc. and the land between Elm and the River Raisin was donated by the Monroe County Historical Society.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 3      Property and Equipment (Concluded)

The Port accepted ownership of the land with the understanding that the property would be held for historical purposes only, eventually to be developed into a public park dedicated to the preservation and historical interpretation of the events surrounding this historical battle of the War of 1812. Through a grant awarded to the City by the State of Michigan, the former power house and other nearby structures have been demolished and the affected area has been backfilled and compacted. The state, the city and the local brownfield redevelopment authority (BRA) have provided an additional \$1 Million to continue the demolition work. The city and the BRA have applied for a revolving loan fund from the US EPA for \$1.25 Million which should complete the demolition and restore the site to its natural grade with appropriate vegetation. The additional work is expected to be complete by summer of 2008.

The Monroe County Historical Society provided an environmental insurance policy which insures the Port against certain environmental claims with limits up to \$1 million for the next 5 years. Congress has passed and the President has signed the River Raisin National Battlefield Study Act. This act directs the Secretary of the Interior to conduct a special resource study of this and other sites in Monroe County relating to the Battles of the River Raisin on January 18 and 22, 1813 to determine the national significance of the sites and the suitability and feasibility of including the sites in the National Park System. The process should be completed by 2009. Because the Port agreed to hold this property for the exclusive purpose of historical preservation and interpretation, or to transfer the property to a non-profit or governmental organization such as the National Park Service without consideration, and because the property would require extensive demolition activities and remediation, no value was recognized in the Port's financial records as a result of the donations. The costs to demolish the structures and remediate the site are capital costs currently recorded as construction in process. As of June 30, 2007 the uncompleted portion of contract commitments was \$218,220.

Note 4      Assets Held in Trust

As discussed in more detail in Note 9, the Port is taking part in a work plan to resolve the environmental contamination at the Port of Monroe. The Port of Monroe and Harsco Corporation have each advanced funds to a trust to fund a work plan for remedial investigation and feasibility study. The Port's share of the trust fund balance at June 30, 2007 was \$20,392.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 5      Rental Income

The terms of the rental agreements are varied, and are changed from time to time when they are renewed. Several of the agreements can be terminated by written notification in advance by either party while for others the termination clause is conditional. All leases are accounted for as operating leases.

The following is a schedule by years of minimum future rental income on noncancellable operating leases with terms of one year or longer as of June 30, 2007:

2008	\$ 37,605
2009	36,791
2010	37,535
2011	37,535
2012	28,768
2013 and thereafter	<u>336,154</u>
Total	<u>\$514,388</u>

The Port of Monroe, as lessor, has entered into lease agreements which include contingent lease payments. The contingent portion of lease income was \$10,208 for wharfage and \$-0- for land in fiscal 2007.

Note 6      Retirement Plan

The Port offers its employee a deferred compensation plan with the Equitable Life Assurance Society, which holds the funds as agent. The plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to its employee until termination, retirement, death, or unforeseeable emergency. The Port contributed 5% of compensation plus a match of employee deferred amounts up to a maximum of 5%. The employees deferred \$6,865 of their compensation in 2007. The Port contributed \$8,338 in fiscal 2007, which was 9.86% of total compensation.

Note 7      Michigan Unemployment

The Port of Monroe has elected the reimbursement method of paying for Michigan unemployment benefits claimed by an eligible Port employee; and therefore, has a contingent liability. Since there are only two employees this unrecorded liability would be relatively small.

Note 8      Monroe County Industrial Development Corporation

The Monroe County Industrial Development Corporation (MCIDC) is a non-profit corporation whose purpose is to promote the development of industry in the area. The Port of Monroe and the MCIDC share similar goals and the MCIDC is providing marketing services to prospective clients interested in locating in the Port area.

MCIDC occupies office space at the Port office building in exchange for marketing services. The rental value and services were valued at \$10,000 for fiscal June 30, 2007. MCIDC reimburses the Port for postage and incidental items.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 9      Port Property Under Environmental Remediation

The Port of Monroe owns approximately 317 acres of a 480 acre track of land that has been identified as a site of environmental contamination by the Michigan Department of Environmental Quality (MDEQ). The MDEQ has notified the Port Commission and more than seventy (70) other individual and corporate entities that they have been identified as potentially responsible parties. The remedial investigation of the land has been substantially completed. The data collected has demonstrated that there is no serious risk to human health or to the environment. The land is available for industrial development except for relatively small portions needed to construct and maintain shore protection, intermodal transportation easements, and utility corridors. By submitting a baseline environmental assessment (BEA) under Michigan's Natural Resources and Environmental Protection Act (NREPA) to the MDEQ, prospective developers have liability protection from existing environmental contamination. Remedial action will probably consist of limited monitoring and shore protection in selected areas. The Port Commission and Harsco Corporation continue to work cooperatively with MDEQ toward a final remedial action plan (RAP) for all of the land that will bring closure to the site. An interim remedial action plan (IRAP) for the land east of Interstate 75 has been reviewed by MDEQ. The Port representatives have met with MDEQ to discuss various options which are currently under consideration. The Port Commission has established the sum of \$300,000 on its balance sheet under liabilities to represent an estimate of its share of the remedial action costs based upon present information.

Note 10      Risk Management

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port participates in the Michigan Municipal League Liability and Property Pool (MMLLPP), a public entity risk pool operating a common risk management and insurance program. The Port pays an annual premium to MMLLPP for its general insurance coverage. MMLLPP is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. The Port carries workers' compensation insurance with the Michigan Municipal League.

Settled claims resulting from the various risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

Note 11    Due to City of Monroe

The City of Monroe is obligated to repay the Michigan Economic Development Corporation \$400,000. A grant was obtained by the City of Monroe for Port improvements intended to encourage development and create jobs. Since the conditions of the grant were not met by the deadline, the City is required to repay the grant over ten years with possible reductions of \$20,000 per job created during the repayment period. The Port has agreed to participate in the repayment on an annual basis.

The maximum amount is recorded "Due to the City of Monroe," totaling \$60,000 as of June 30, 2007.

Balance - July 1, 2006	\$80,000
Principal paid	(20,000)
Balance - June 30, 2007	<u>\$60,000</u>

The annual requirements to service the debt outstanding as of June 30, 2007 are as follows:

<u>Fiscal June 30</u>	
2008	\$20,000
2009	20,000
2010	20,000
2011 and thereafter	-
Total	<u>\$60,000</u>

Note 12    Land Contract Liability

On June 20, 2005 the Port of Monroe purchased a building next to the Dorsch Memorial Library on a land contract for \$260,000. The remaining payments will be interest only at 3%, due on June 20 of each year until the balloon payment of principal on June 20, 2010. The contract may be paid off early without penalty.

Balance - July 1, 2006	\$165,062
Principal Paid	-
Balance - June 30, 2007	<u>\$165,062</u>

The annual requirements to service the debt outstanding as of June 30, 2007 are as follows:

<u>Fiscal June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 4,952	\$ -	\$ 4,952
2009	4,952	-	4,952
2010	<u>169,876</u>	<u>165,062</u>	<u>4,814</u>
Total	<u>\$179,780</u>	<u>\$165,062</u>	<u>\$14,718</u>

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2007

**Note 13**   **Contingencies**

In the normal course of its activities, the Port may be a party to certain legal actions. The Port and its legal counsel are of the opinion that there are no legal actions which will have a material effect on the financial statements.

**BUDGETARY COMPARISON SCHEDULE**

For the Fiscal Year Ended June 30, 2007

(See Accompanying Independent Auditors' Report)

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance From</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Amended Positive (Negative)</b>
<b>Operating Revenues</b>				
Building rental	\$42,500	\$42,500	\$42,600	\$100
Land rental	17,900	26,500	79,908	53,408
Wharfage and dockage	37,000	37,000	38,705	1,705
MCIDC - office rental	10,000	10,000	10,000	0
Administrative services	5,000	5,190	5,190	0
Total Operating Revenues	112,400	121,190	176,403	55,213
<b>Operating Expenses</b>				
Consulting engineers	75,000	100,000	62,272	37,728
Salaries	138,535	97,535	84,525	13,010
Environmental expense	15,000	8,000	6,000	2,000
Environmental travel and meetings	4,000	4,000	2,065	1,935
Repairs and maintenance	95,000	60,000	43,998	16,002
Legal	60,000	95,000	107,404	(12,404)
Auditing and accounting	12,000	12,000	11,280	720
Utilities	9,000	7,500	9,441	(1,941)
Telephone	2,500	2,500	1,379	1,121
Office supplies and postage	2,000	2,000	3,171	(1,171)
Equipment lease	6,000	0	0	0
Life and medical benefits	2,000	1,000	520	480
General insurance	35,000	35,000	32,983	2,017
Payroll tax	10,598	6,500	6,466	34
Office cleaning	3,500	3,500	3,120	380
Travel - general	3,000	5,000	4,856	144
Promotion	4,000	43,000	26,750	16,250
Dues and subscriptions	3,000	3,000	3,841	(841)
Deferred compensation plan	6,800	6,800	8,338	(1,538)
Miscellaneous expense	1,000	1,000	225	775
Commissioner fees	12,500	5,500	5,820	(320)
Contingency expense	1,000	0	0	0
Security	20,000	500	0	500
Advertising	2,500	2,500	93	2,407
MCIDC - marketing	10,000	10,000	10,000	0
Depreciation expense	95,000	95,000	94,090	910
Wastewater treatment	30,000	20,000	22,436	(2,436)
Total Operating Expenses	658,933	626,835	551,073	75,762
Operating Income (Loss)	(546,533)	(505,645)	(374,670)	130,975
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	5,000	12,000	11,988	(12)
Property tax - City of Monroe,	403,600	403,600	398,767	(4,833)
Expired option	0	0	3,000	3,000
Interest expense	0	(4,955)	(4,883)	72
Net Nonoperating Revenues	408,600	410,645	408,872	(1,773)
Income Before Other Revenue	(137,933)	(95,000)	34,202	129,202
<b>Other Revenue</b>				
Contribution from City of Monroe	0	0	988,023	988,023
Change in Net Assets	(\$137,933)	(\$95,000)	\$1,022,225	\$1,117,225

(See accompanying notes to financial statements)



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In planning and performing our audit of the financial statements of the Port of Monroe as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Port's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port of Monroe's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Monroe's internal control.

A new auditing standard, SAS No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" is effective for audits after December 15, 2006. Auditors are now required to communicate in writing with clients about significant deficiencies and material weaknesses that come to their attention.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement, of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the following deficiency in internal control that we consider to be a material weakness.

Financial Statements

As is common with smaller entities, the Port has relied on independent auditors to assist in the preparation of the financial statements, related notes and assistance with year end adjustments. The result is that the Port does not have controls in place to prepare the financial statements and notes in accordance with generally accepted accounting principles. The Port of Monroe does carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

During the course of our audit, we noted certain practices and procedures which we believe are worthy of comment. Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our examination and therefore, do not encompass all matters that might result from special studies directed toward such matter.

Accounting for Environmental Costs

The purpose of this comment is to review the accounting for environmental costs. A liability was recorded based on an estimate of the Port's share of costs to resolve the environmental problems in a manner acceptable to The Michigan Department of Environmental Quality. The estimates and their methodology should be documented for future reference and compared to expenditures made. Any change in the estimate would be recognized at that time.

In the future, as the costs are paid, the environmental liability on the Port's balance sheet would decrease.

Commission Participation

The internal control system of the Port of Monroe is comprised of one clerical person, along with the involvement of the Port Commission and the City Clerk-Treasurer. We want to stress the importance of the Port Commission's continued participation in the system.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officers and employees of the Port. We would be pleased to discuss any of these recommendations with you, and to provide any assistance that you may require in their implementation.

This communication is intended solely for the information and use of the Monroe Port Commission, City of Monroe, management, others within the Port of Monroe and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Cooley Kehl Wohlgenant & Carlton, PLLC*

August 8, 2007